



Business Barometer®

Results of the CFIB Business Outlook Survey

Ted Mallett, Vice-President, Research and Chief Economist
December 13, 2006

CFIB's survey of business expectations places the Business Barometer index at 107.0 in December¹, more than a point and a half below the 108.6 level recorded in September (see Figure 1). Although lower than three months ago, the current reading by small and mid-sized business owners is not markedly different than the index levels posted between December 2005 and June 2006—signifying continuing steady but unspectacular performance in the economy. The previous boost in optimism in September, however brief, was most likely spurred by the unexpected decline in fuel prices in the late summer. Now that the memory of those events have become more distant, business optimism has returned to the baseline average. Indeed, this pace of activity remains in the mid range of expectations measured in the past five years.

Overall, about 43 per cent of owners say their firms are doing much better or slightly better than one year ago, while only 23 per cent say they are doing somewhat or much worse (see Figure 2). Past performance is about on par with last September levels. Short-term expectations dropped considerably, however—as it usually does this time of year when many key parts of the economy go into winter hibernation. About 33 per cent of respondents expect stronger performance during the next three months, while 23 per cent expect a weakening.

The longer-term expectations for the next 12 months (on which the Barometer Index is based) are more positive, with 47 per cent of respondents expecting stronger performance, versus only 14 per cent expecting a weaker year ahead. The remaining 39 per cent of owners responding expect their business to remain at more or less the same volumes through to the end of 2007.

Figure 1:
CFIB Quarterly Business Barometer
(Index, 1988=100)

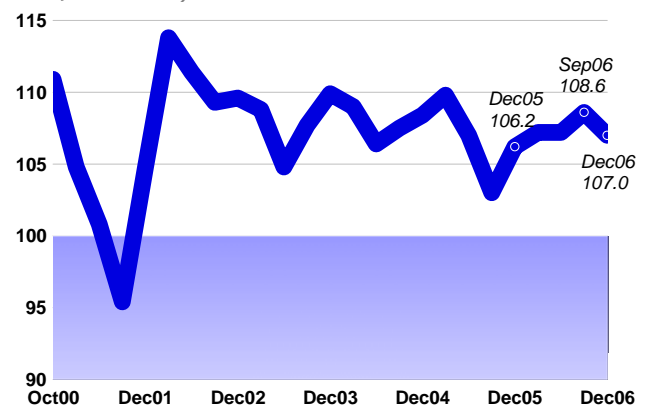
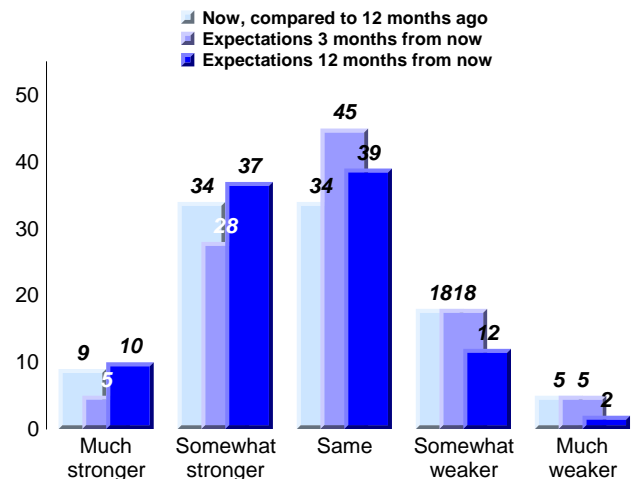


Figure 2:
Current and Expected Business Performance
(% response)



¹ These latest findings are based on 1,881 responses to a regular fax and web survey conducted among a stratified random sample of CFIB members between November 21 and December 1, 2006.

Index detail, by region

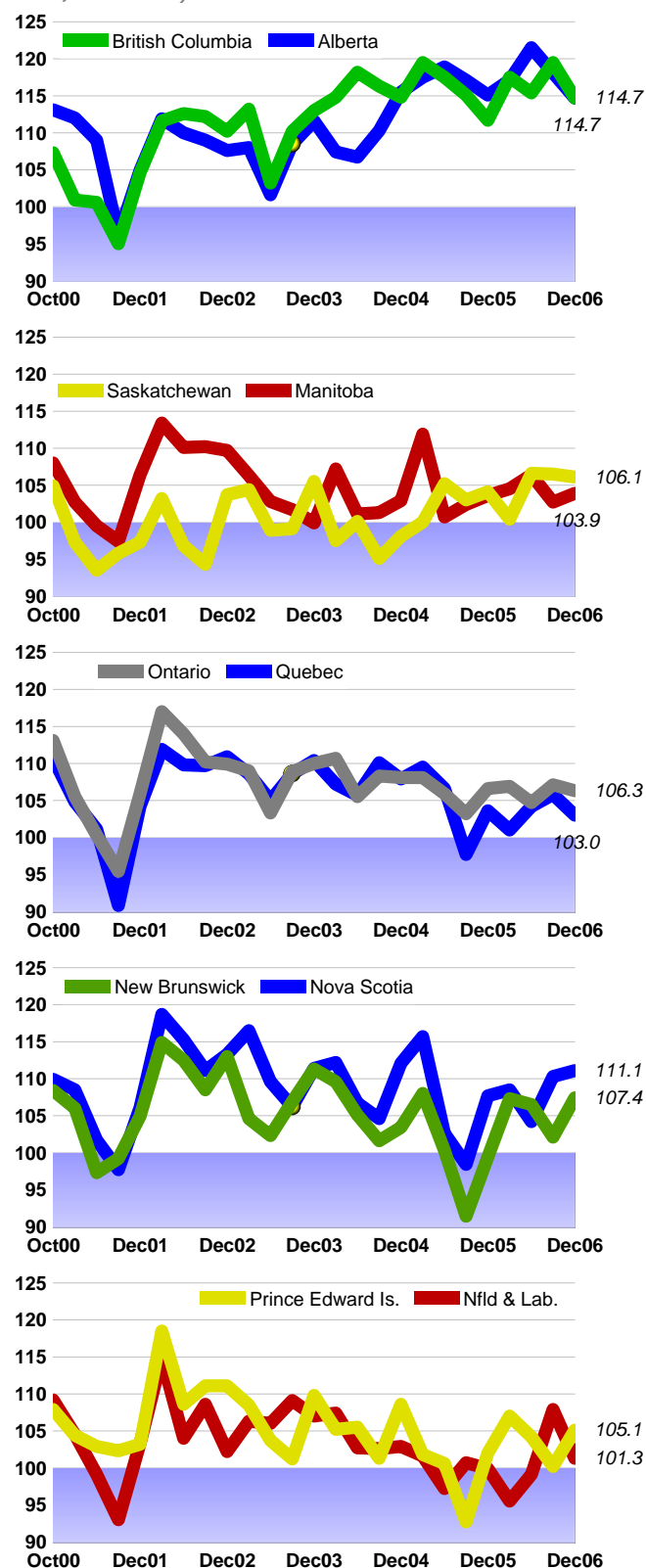
The national index has been settling into a relatively narrow range for more than a year. It looks that the regional scores are converging as well; there are no longer the massive differentials in business optimism from one region to another. Although they remain highest in the country, index levels in BC and Alberta have moved sharply down to 114.7 from their heady levels at or near 120 (see Figure 3). At the same time, business optimism in Saskatchewan remains near its historical highs—above the 106 level. Businesses in Manitoba are not far behind, with an index of 103.9, which is close to average levels of the past number of years.

Business optimism in Ontario and Quebec has been slowly, but steadily losing ground during the past four years, and the December findings tell pretty much the same story. The December Index in Ontario is 106.3, down from 107.3 in September. In Quebec, meanwhile, the index dropped to 103.0 from its previous level of 105.8.

It is in New Brunswick and Nova Scotia where the CFIB index is most lively. Results from these provinces show the greatest correlation with seasonal conditions—not surprising given the regions' strong maritime and resource industry linkages. Nonetheless, the 111.1 index level in Nova Scotia and 107.4 in New Brunswick are enough to put them in third and fourth position among the provinces—above national average.

The optimism index in PEI follows much the same pattern as in neighbouring New Brunswick. PEI's December level clocked-in at 105.1—about its average for the past five years. After spiking upward sharply in Newfoundland and Labrador in September, the Index score settled to 101.3 in December. Nonetheless, this level is better than most of the quarterly results from the past two years.

Figure 3:
Quarterly Index: Regional Summary
(Index, 1988=100)



Index detail, by sector

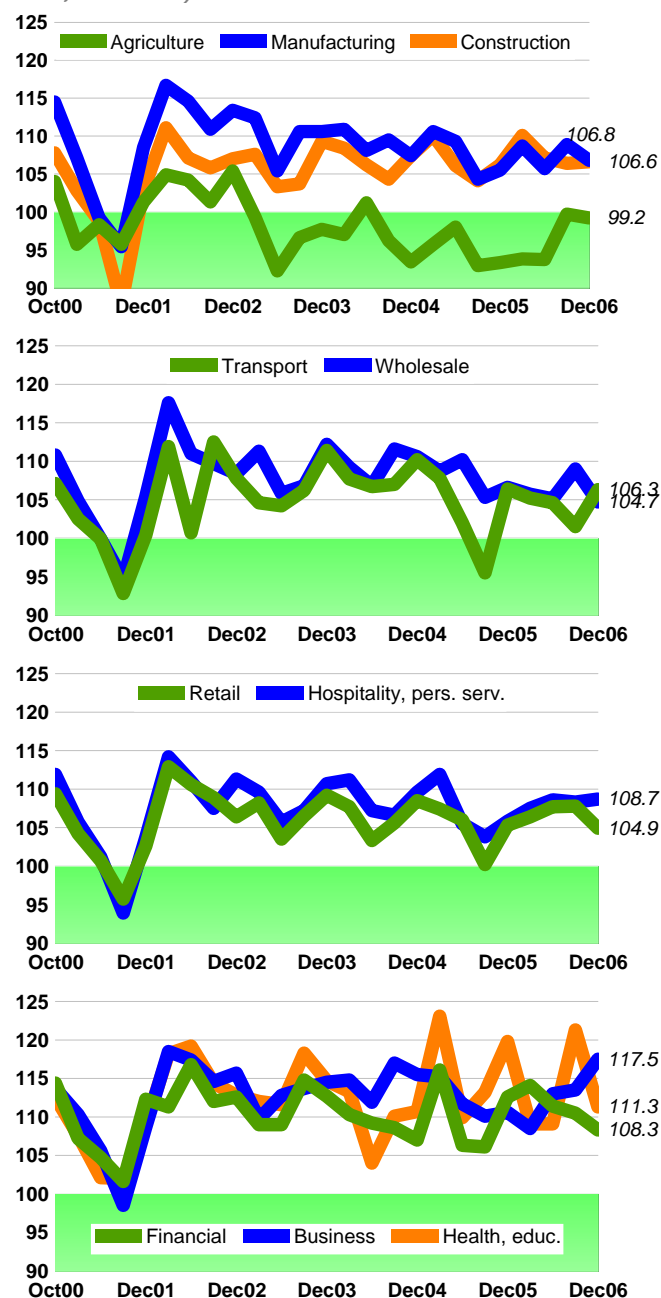
Sector detail reveals that expectations in the service sector still outpoint the goods-producing and distributing sectors by a significant margin. Businesses engaged in business services, health and social services—and to a lesser degree—those in finance, insurance, real estate, hospitality and personal services are all typically above the nationwide average in their expectations for future performance (see Figure 4).

Agribusinesses are again well under the average, while manufacturers, construction firms, transportation businesses and wholesalers are closely grouped just under the national average.

The most optimistic businesses in the country include: computer services, structural metal products, accounting and bookkeeping services, sports and recreation facilities, and florists and garden centres.

The least optimistic businesses include: field crop farms, book stores, home furnishing stores, drug stores, structural construction and jewellery stores.

Figure 4:
Quarterly Index: Sector Summary
(Index, 1988=100)



What's in store for the holiday retail season

The November-December sales period is critical to many retail businesses. Although expectations for the next year are not grandiose, current performance is reasonably good. When compared to last year, 42 per cent of retailers say they are performing at a stronger or much stronger level (see Figure 5). On the opposite side of the aisle, retailers that are experiencing weaker performance than last year number about 25 per cent. The remaining 33 per cent of retail respondents expect to be in line for a season like 2005.

The best performing retail segments compared to last year include general clothing, shoes, sporting goods and auto accessories. Conversely, the underperforming segments include: women's clothing, books, jewellery, and home furnishings.

Employment plans

The moderation in overall SME performance expectations is matched with a corresponding drop in hiring expectations—although the margin is not large. About 31 per cent of business owners expect to increase full-time employment in the next 12 months—about a point below September's mark, but 1.6 points above the previous June (see Figure 6).

Business services companies, wholesale, manufacturing and transport firms are the most likely—at more than 35 per cent—to increase staffing levels during the year ahead. Retailers, on the other hand are only half as likely to increase full-time employment.

Prospects for the year ahead, however, are strong enough to ensure that few business owners are expecting to cut back employment. Only 7 per cent of survey respondents are expecting to cut back on full-time employment during the next 12 months (see Figure 7). Part-time employment is expected to climb among 14 per cent of firms and decline in approximately 7 per cent of businesses. Overall, the large two-thirds majority of businesses expect no change to their full- and part-time employment levels by the end of 2007.

Figure 5:
Holiday Season Retail Performance—
2006 compared to 2005
(% response)

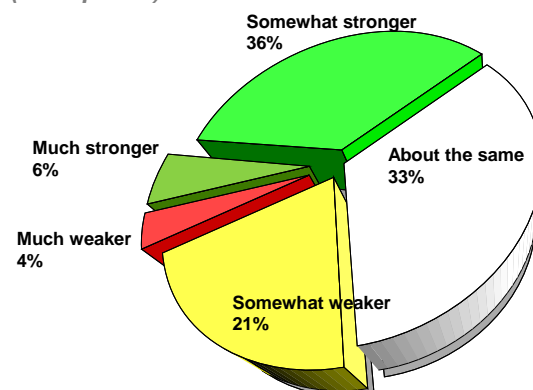
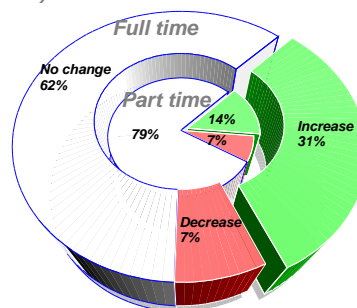


Figure 6:
12-month Full-time Employment Plans
Trends
(% of respondents planning to increase)



Figure 7:
Anticipated 12-month Employment Plans
(% response)



External business conditions

Looking back reveals a number of business factors that affected firms' bottom lines. In the past three months, there has been a marked improvement in the effects of energy prices on businesses. To a lesser extent, other external factors such as insurance premiums, interest rates and stock market levels have also moved in a positive direction (see Figure 7).

Looking back over the past year, improving energy and insurance prices still rank as the two most positive developments, competition and access to bank financing have also shown some improvement. On the other hand, businesses are also feeling a bigger pinch from tighter labour markets and growing wage demands.

The Dollar is still a considerable factor in business owners' planning. Goods-producing businesses overwhelmingly would like to see a lower value to the Canadian currency. A value in the 90-cent-US vicinity makes export markets harder to compete in and makes the Canadian market more exposed to foreign competitors. Domestic companies selling or buying imported products within Canada, on the other hand, are now getting more for their money.

Overall, about 29 per cent of business owners would prefer to be dealing with a lower valued Canadian Dollar, while about 23 per cent would prefer a higher valued currency (see Table 1). The remaining 48 per cent or so of business owners do not see the Dollar's value significantly or directly affecting their day-to-day operations. Compared to September, these findings show a smaller gap between the two opposing positions.

Figure 8:
Impacts of Major Business Factors on Business Performance

Ranking	Sector	Past 3 months	Past 12 months
1	Energy prices	●●	●●
2	Customer demand		
3	Other input prices		
4	Insurance premiums	●	●●
5	Labour availability		✖
6	Market wages		✖
7	Competition		●
8	Interest rates	●	
9	Access to bank finance		●
10	Border crossings		
11	Stock market performance	●	

●●=large improvement ✖✖=large worsening
 ●=improvement ✖=worsening

Table 1:
The Dollar: Industry Sector Perspectives

Sector	% preferring lower Dollar	% preferring higher Dollar
Agriculture	38	17
Manufacturing	50	20
Construction	18	32
Transportation	33	13
Wholesale	42	44
Retail	24	25
Finance, insur., real est.	19	7
Business services	18	11
Health, education services	7	27
Hospitality services	25	22
Overall	29	23

Capital spending plans

December's capital spending plans for the next 12 months largely remain quite healthy, continuing on a strong recent trend identified earlier in the September. Businesses seem to have found more room to spend on productive capital investments. Capital is also a rational investment choice for those firms concerned about meeting long term staffing needs.

In the office equipment category, 39 per cent of businesses plan to replace equipment in the next year, up 1 point from last September (see Figure 9). Similarly 31 per cent plan to add to their stock of equipment—a 3 per cent jump from the previous quarter. Businesses also expect to maintain spending on vehicles. Those expecting to replace vehicles in the next year have stayed at 31 per cent, from 29 per cent a year ago, while those adding to their fleets represent about 11 per cent of all businesses. It also looks like more businesses are looking to expand their premises—up to 12 per cent of respondents, from 10 per cent in June. General machinery and equipment investment, however, is seen to be holding steady—with 27 per cent expecting to replace current equipment and 30 per cent expecting to add to their stock.

Wages and prices

With recently stable energy prices, there seems to be a subsequent stabilizing in businesses' expectations to increase their own prices. Roughly 38 per cent of businesses plan to be increasing their prices by more than 2 per cent during the next year, about the same as the the number that expected to do the same a year ago. (see Figure 8).

Wage growth, however, continues to accelerate. The hot job market is forcing many more firms to increase wages at faster rates. More than one-fifth (21 per cent) of businesses expect to increase wages by 2 per cent in the next 12 months, while 50 per cent plan to increase wages by more than 2 percentage points.

Figure 9:
Expected 12-Month Capital Spending Plans
(% response)

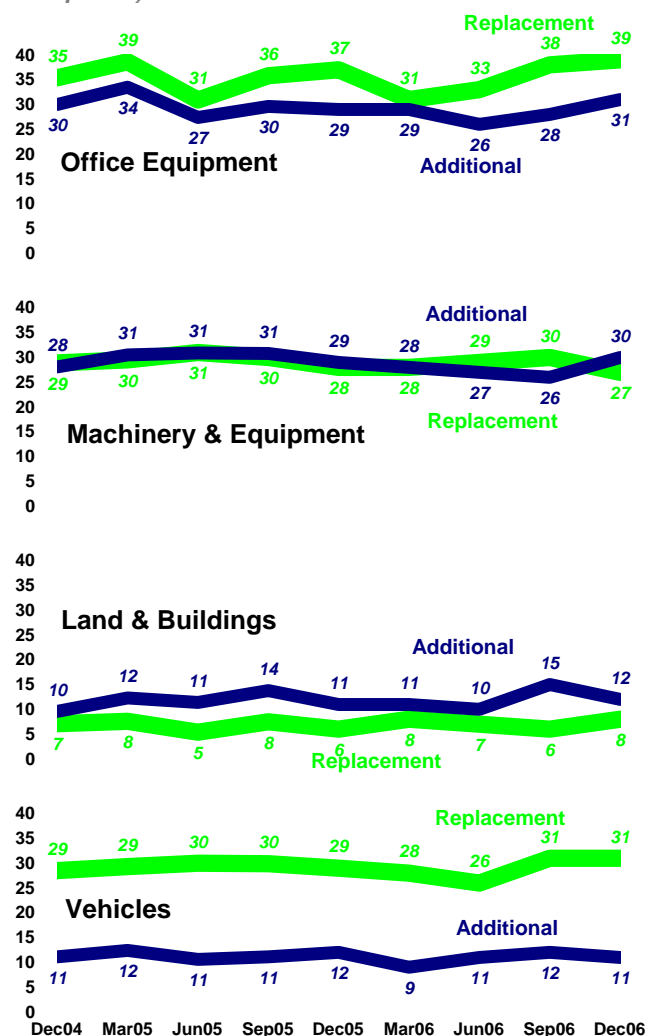
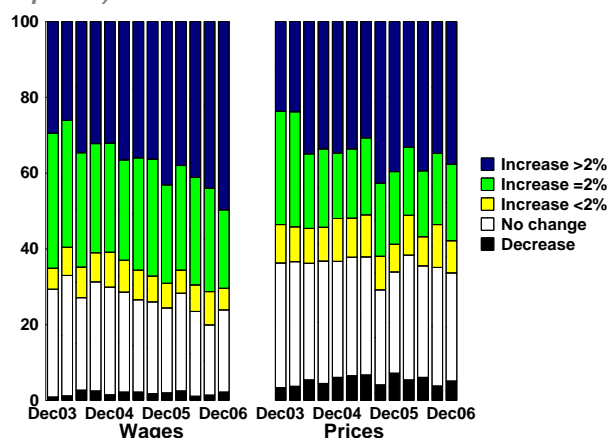
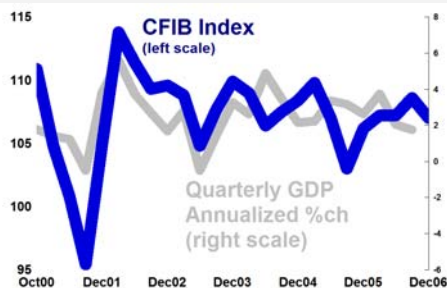


Figure 10:
12-month Price and Wage Plans:
(% response)



Research Notes:

Representing more than 100,000 small and mid-sized enterprises (SMEs) nationwide, the Canadian Federation of Independent Business has been tracking business conditions and expectations for the past 18 years. These measures have been shown to be extremely accurate coincident indicators of economic growth. Historical CFIB survey results, indexed to 1988=100, are almost identical to GDP growth. Although there is no formal measure of GDP according to firm size, estimates based on the distribution of income and profits suggest that SMEs account for roughly 45 per cent of total economic output.



CFIB's index is based on the five-point scale mean value of a question on the expected performance of their businesses in the next 12

months. The five response categories are: much stronger, somewhat stronger, about the same, somewhat weaker and much weaker. This question is common to all previous surveys back to 1988.

December 2006 Sample:

These data reflect the responses of 1,881 owners from a selected sample of CFIB members who received the survey by fax or email on November 20, 2006. Results are considered statistically accurate to within +/- 2.0 percentage points 19 times out of 20.

Number of Respondents by Employment Size

0-4 employees	759
5-19 employees	802
20-49 employees	208
50+ employees	83

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